

Processed Food Trade Surplus Narrowed in 1997

Charles R. Handy
(202) 694-5385
chandy@econ.ag.gov

Steven A. Neff
(202) 694-5381
sneff@econ.ag.gov

U.S. exports of processed food and beverages have been growing faster than exports of raw agricultural commodities, and now account for over half of total agricultural exports. Food processors can access international markets by exporting products from their plants located in the United States, or by sales from their foreign subsidiaries located in host country markets. In 1997, sales from U.S.-owned food processing plants abroad totaled about \$134 billion—over four times larger than U.S. processed food exports.

This article examines exports and imports of processed foods, beverages, and related products that fall under Standard Industrial Classification Code 20 (SIC-20). SIC-20 contains 49 food processing industries, including fish and seafood, distilled liquors, and pet food.

Processed food imports continued to grow faster than exports in 1997, but their rate of growth declined. After increasing 11.2 percent in 1996, U.S. imports of processed foods grew a slower 8.7 percent in 1997 to \$30.2 billion. Over the past 5 years, processed food imports averaged a

6.8-percent annual growth rate—considerably higher than during the early 1990's.

In comparison, U.S. exports of processed food grew 3.9 percent in 1997 to \$31.3 billion. While the growth was up substantially from the 2.5-percent rate in 1996, it was still below the average annual increase of 6.5 percent over the previous 5 years. (Export growth was especially strong in 1994 and 1995 at 12.1 and 12.0 percent, respectively.)

Total U.S. trade in processed foods (the sum of imports and exports) rose 6.2 percent in 1997, which was somewhat smaller than the 6.5- and 10.7-percent increases of the previous 2 years. With imports growing faster than exports, the processed food trade surplus (exports minus imports) declined for the second consecutive year in 1997 to \$1.1 billion—down from \$2.4 billion in 1996, and from the record \$4.4 billion in 1995 (fig.1).

The processed food sector has enjoyed continuous trade surpluses since 1992. However, that string could be in jeopardy in 1998. The negative impact of the Asian financial crisis on processed food exports was mild up to December 1997, but will be much stronger in 1998. And, a robust U.S. economy and a strong dollar in 1998 will continue to

attract imports at a higher than average rate. Partially offsetting these effects should be the continued strong growth in U.S. exports to Canada, Mexico, and several European countries. The combined effect nonetheless could erode the trade surplus to near zero or even result in a trade deficit.

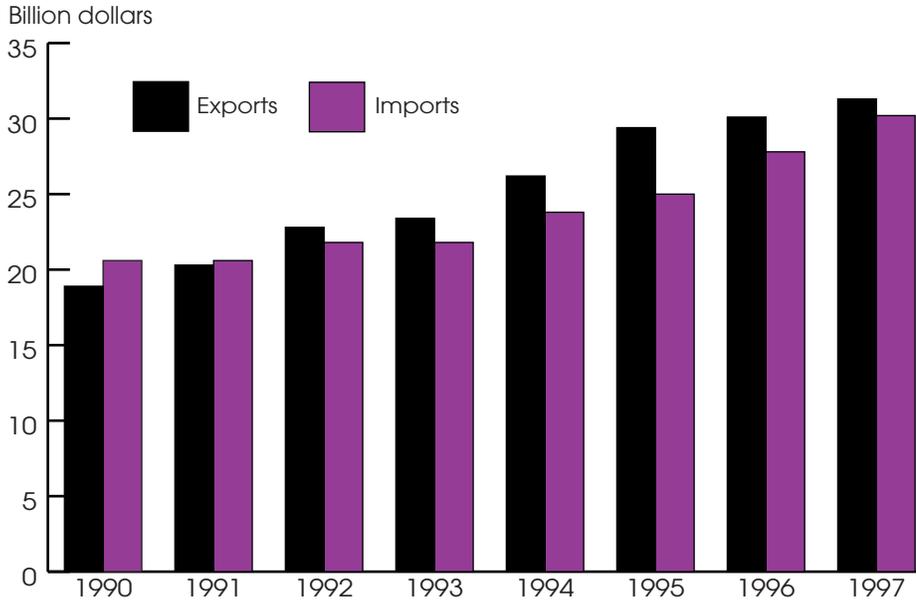
Export Growth Recovered in 1997, Despite the Asia Financial Crisis

Growth in processed food exports improved in 1997 to 3.9 percent, up from 2.5 percent in 1996. In fact, 23 of the 49 processed food industries achieved record export sales in 1997 (table 1). But several of the largest U.S. export industries suffered declines.

After several years of rapid growth, exports of three of the four largest U.S. processed food exports—meatpacking, poultry, and seafood—declined in 1997. These three industries were responsible for 34 percent of total processed food exports in 1997, down from 37 percent in 1996. Products from meatpacking plants, which include all red meats plus byproducts such as hides and skins, are by far the largest U.S. processed food export.

The authors are agricultural economists with the Food and Rural Economics Division, Economic Research Service, USDA.

Figure 1
U.S. Processed Foods Trade Surplus Continued To Narrow in 1997



Meatpacking retained its top ranking, even though exports fell 4 percent in 1997 following a 1.5-percent decline in 1996. With beef and pork exports increasing in 1997, all the decline came from lower foreign sales of hides and skins, edible offals, and variety meats. Fresh and frozen fish fell from the second-largest to fourth-largest export after suffering declines of over 8 percent in both 1996 and 1997. Falling exports were due to a combination of poor U.S. fish harvests and weaker demand in major Asian markets. Processed poultry exports have been among the fastest growing in recent years. But following a 23-percent increase in 1996, exports fell 2 percent in 1997—largely due to slower sales to Russia, the largest market for U.S. poultry.

Soybean oil milling (soybean oil and meal) registered the largest increase in export value of the 49 industries—\$1,048 million over the 1996 level. This represented a 49-percent increase in 1997 following a

6-percent rise the previous year. As a result, soybean oil milling became the second-ranked export in 1997, up from fourth in 1996. Foreign sales of wet corn milling (high-fructose corn syrup, corn oil, and starch) managed only a 1-percent increase in 1997 following an 11-percent growth in 1996. The slowdown was due partly to Mexico's substantial increase in import tariffs on U.S. high-fructose corn syrup. Both canned and frozen fruit and vegetable exports have grown steadily in recent years—which has helped offset a very slow growth in the domestic market for these products.

Wine exports expanded rapidly, up 34 and 28 percent in 1996 and 1997, even as wine imports to the United States have mushroomed. In contrast, beer exports have faltered. They were over twice as large as wine in 1995, but by 1997, exports of wine exceeded beer at \$423 million to \$418 million, respectively. Other industries with rapidly expanding exports were pet food, up 23 and 16 percent in 1996 and 1997, respectively; sausage and prepared meats, up 21 and 160 percent; candy and confectionery products, up 11 and

24 percent; and natural and processed cheese, up 17 and 18 percent.

Leading Export Destinations

Japan continues as the largest export market for U.S. processed foods. But, its share of U.S. exports has been falling, while the shares from U.S. partners in the North American Free Trade Agreement (NAFTA) have been increasing. U.S. exports to Japan fell 11 percent in 1997 (mainly due to lower sales of fish and seafood and prepared feeds), reducing Japan's share of U.S. exports to 21 percent from 24 percent in 1996 (table 2). At the same time, U.S. exports to Canada increased 10 percent to \$5.0 billion, while exports to Mexico rose 20 percent to \$2.4 billion. Canada's share of U.S. exports rose from 15 to 16 percent between 1996-97, while Mexico's share increased from 7 to 8 percent.

Exports rose sharply to both Hong Kong and to mainland China, up 15 percent and 17 percent, respectively. Following a rapid rise in 1996, exports to Russia declined 9 percent in 1997, reflecting lower poultry and meat sales.

Processed food exports to the seven "Asia Crisis" countries (South Korea, Taiwan, the Philippines, Singapore, Thailand, Indonesia, and Malaysia) held up surprisingly well during 1997. These countries all underwent major currency devaluations during the second half of 1997, and collectively accounted for 11 percent of total U.S. processed food exports. Of these seven countries, only Thailand imported less U.S. processed foods in 1997.

However, the outlook for 1998 is very different. U.S. exports to each

Table 1
Leading Processed Food Export Industries

Industry	Exports		Change	
	1996	1997	1995-96	1996-97
	Million dollars		Percent	
Meatpacking	6,008	5,754	-1.5	-4.2
Soybean oil mills	2,128	3,176	6.4	49.3
Poultry processing	2,585	2,532	23.3	-2.1
Fresh or frozen fish and seafood	2,488	2,270	-8.5	-8.8
Wet corn milling (oil and syrup)	1,580	1,596	11.5	1.0
Other food preparations	1,217	1,288	23.1	5.8
Canned fruits and vegetables	1,035	1,114	2.3	7.6
Salted and roasted nuts and seeds	1,225	1,030	24.5	-15.9
Frozen fruits and vegetables	823	879	2.4	6.8
Rice milling	912	814	.5	-10.7
Animal and marine fats and oils	889	792	-14.4	-10.9
Flavorings, extracts, and syrups	787	774	15.6	-1.7
Dry, condensed, and evaporated milk	544	758	-8.5	39.3
Dried fruits and vegetables	675	704	3.7	4.2
Distilled and blended spirits	687	691	-7.6	.6
Prepared animal feed	593	624	-8.7	5.2
Pet food	534	621	23.4	16.3
Vegetable oil milling	437	482	-19.6	10.4
Chocolate and cocoa products	400	434	12.3	8.6
Wines, brandy, and brandy spirits	330	423	34.1	28.2
Malt beverages	453	418	-13.8	-7.8
Sausage and prepared meats	148	386	21.0	160.0
Processed fishery products	421	339	-1.4	-19.4
Flour and grain mill products	349	330	-20.5	-5.3
Sauces and salad dressings	282	309	10.7	9.7
Soft drinks and carbonated water	215	259	-29.8	20.2
Bread and other bakery products	230	248	4.4	8.0
Candy and other confectionery products	189	234	10.6	23.8
Potato chips	222	225	-1.8	1.3
Roasted coffee	199	214	9.4	7.3
Breakfast cereals	177	183	5.1	3.1
Shortening and cooking oils	136	151	10.8	11.3
Blended and prepared flours	139	147	27.9	5.6
Cookies and crackers	116	134	5.9	15.9
Natural and processed cheese	105	123	17.2	17.7
Cane and beet sugar	238	175	-26.5	-38.6
Ice cream and frozen desserts	94	90	7.7	-4.4
Cottonseed oil milling	80	88	-25.4	10.5
Chewing gum	62	86	3.5	37.2
Canned specialties	87	85	-1.1	-1.8
Other frozen specialties	57	72	-2.9	25.7
Frozen bakery products, except bread	62	64	16.4	3.6
Pasta products	42	56	4.1	31.7
Fluid milk	42	51	11.2	19.6
Malt	45	48	5.5	8.3
Creamery butter	42	26	-33.7	-37.5
Manufactured ice	4	7	-41.4	47.5
Total, all industries	30,116	31,305	2.5	3.9

of these seven countries during the first half of 1998 have fallen, ranging from a low of 11 percent to the Philippines to a 72-percent decline in exports to Indonesia. Exports to Japan also have continued their decline by 12 percent. Partially offsetting the bad news is continuing strong export growth to Canada (up 8 percent), Mexico (up 26 percent), and mainland China (up 50 percent). For the first half of 1998, Russia replaced South Korea as the fourth-largest U.S. export market, followed by Hong Kong and China. South Korea fell to seventh place.

Import Growth Remains Brisk

A strong economy, rising per capita incomes, and relatively high value of the dollar continued to make the U.S. market highly attractive for imports. Eleven of the 49 processed food industries had imports of a billion dollars or more in 1997 (table 3). Of these billion-dollar import industries, only cane and beet sugar declined in 1997 (down 9 percent, after a big 58-percent jump the year before). Imports

for 19 industries had gains of 10 percent or more in 1997, down substantially from 33 industries in 1996. In contrast, the dollar value of imports fell for 11 industries in 1997, compared with only 2 of the 49 industries in 1996.

Fresh and frozen fish is by far the largest processed food import. It grew 14 percent to \$6.2 billion in 1997, over twice the value of the next-largest import industry (meatpacking). Major sources of fish imports are Canada, Thailand, Mexico, Chile, and China. Meatpacking is the second-largest import industry, as well as the largest export industry. Imports from meatpacking plants (primarily frozen ground beef in bulk containers and lamb from Australia and New Zealand) grew 14 percent to \$2.8 billion.

Wine is one of the fastest growing processed food imports, growing 23 percent in 1996 and another 18 percent in 1997 to \$2.0 billion—pushing canned fruits and vegetables down to the fourth-ranked industry. Alcoholic beverages constitute one of the largest U.S. import sectors. Wine (ranked third), distilled spirits

(ranked fifth with imports of \$1.8 billion), plus malt beverages (ranked seventh with imports of \$1.5 billion) combined to account for 17.6 percent of total U.S. processed food imports in 1997.

Other industries with double-digit import growth over each of the last 2 years are chocolate and cocoa products; other food preparations; soft drinks; dried fruits and vegetables; cookies and crackers; rice milling; animal fats and oils; breakfast cereals; and pet food.

Leading Import Sources

Just as Canada and Mexico were the largest growth markets for U.S. exports, the two U.S. NAFTA neighbors also dominate as sources for U.S. processed food imports (table 4). The United States imported \$6.3 billion from Canada in 1997—three times the \$2.1 billion imported from Mexico, the second-leading source country. Imports from both of these countries grew at double-digit rates in both 1996 and 1997. Nearly 28 percent of all U.S. processed food imports comes from these two countries. The United States buys a wide

Table 2

Japan and Canada Are the Largest Markets for U.S. Processed Foods

Market	Exports		Share of SIC-20 exports	Cumulative share of SIC-20 exports	Change	
	1996	1997			1995-96	1996-97
	Million dollars			Percent		
Japan	7,209.8	6,433.8	20.6	20.6	-4.6	-10.8
Canada	4,548.7	5,027.6	16.1	36.7	8.3	10.5
Mexico	2,005.3	2,399.1	7.7	44.4	21.6	19.6
South Korea	1,511.0	1,533.8	4.9	49.3	-9.2	1.5
Hong Kong	1,116.6	1,280.0	4.1	53.4	10.2	14.6
Russia	1,281.9	1,163.7	3.7	57.1	32.4	-9.2
United Kingdom	828.3	862.4	2.8	59.9	11.6	4.1
The Netherlands	935.9	849.8	2.7	62.6	1.8	-9.2
China (Taiwan)	753.9	818.1	2.6	65.2	-3.5	8.5
China (Mainland)	555.8	649.3	2.1	67.3	-14.9	16.8
Germany	731.3	643.1	2.1	69.4	22.7	-12.1

Table 3
Leading Processed Food Import Industries

Industry	Imports		Change	
	1996	1997	1995-96	1996-97
	Million dollars		Percent	
Fresh or frozen fish and seafood	5,434	6,224	-3.2	14.5
Meatpacking	2,498	2,850	.2	14.1
Wines, brandy, and brandy spirits	1,724	2,031	23.0	17.8
Canned fruits and vegetables	1,731	1,799	15.1	3.9
Distilled and blended spirits	1,714	1,764	10.6	2.9
Vegetable oil milling	1,473	1,516	18.7	2.9
Malt beverages	1,341	1,514	12.5	12.9
Chocolate and cocoa products	1,400	1,471	26.6	5.1
Processed fishery products	1,173	1,327	9.2	13.1
Other food preparations	1,093	1,219	11.7	11.6
Cane and beet sugar	1,198	1,095	57.6	-8.6
Frozen fruits and vegetables	731	743	29.0	1.6
Dry, condensed, and evaporated milk	621	583	23.5	-6.2
Natural and processed cheese	584	548	6.4	-6.1
Soft drinks and carbonated water	388	485	21.5	25.0
Salted and roasted nuts and seeds	445	470	8.4	5.6
Candy and other confectionery products	417	452	9.3	8.4
Bread and other bakery products	360	364	2.5	1.1
Sauces and salad dressings	319	343	12.7	7.5
Roasted coffee	301	315	6.5	4.7
Dried fruits and vegetables	274	315	11.9	15.0
Pasta products	269	292	4.5	8.8
Wet corn milling (oil and syrup)	285	266	18.0	-6.5
Cookies and crackers	224	266	16.8	18.8
Prepared animal feed	246	244	20.8	-.8
Rice milling	163	207	27.6	27.1
Animal and marine fats and oils	150	186	29.0	24.3
Breakfast cereals	122	151	21.2	23.3
Pet food	127	144	25.8	13.8
Sausage and prepared meats	136	134	-15.4	-1.1
Flavorings, extracts, and syrups	119	106	4.4	-10.5
Chewing gum	85	101	3.0	18.6
Flour and grain products	106	91	22.7	-13.7
Shortening and cooking oils	82	87	15.9	6.2
Blended and prepared flours	60	83	50.9	37.4
Frozen bakery product, except bread	76	81	27.0	6.1
Canned specialties	57	70	6.2	22.4
Soybean oil milling	83	65	58.6	-21.9
Poultry processing	45	46	46.3	2.1
Potato chips	30	33	22.2	9.6
Manufactured ice	26	24	37.5	-6.5
Malt	23	21	20.5	-6.1
Creamery butter	9	20	556.5	115.1
Fluid milk	9	10	93.2	3.9
Other frozen specialties	6	8	4.4	31.8
Ice cream and frozen desserts	4	4	50.9	16.3
Cottonseed oil milling	1	*	253.1	-35.5
Total, all industries	27,761	30,171	11.2	8.7

Note: *Less than \$0.5 million.

Table 4

Canada Is Also the Largest U.S. Import Source

Source	Imports		Share of SIC-20 imports	Cumulative share of SIC-20 imports		Change	
	1996	1997		1995-96	1996-97		
	Million dollars		Percent				
Canada	5,662.4	6,277.1	20.8	20.8	15.6	10.9	
Mexico	1,795.9	2,084.9	6.9	27.7	12.0	16.1	
Thailand	1,584.4	1,649.4	5.5	33.2	-2.8	4.1	
France	1,374.3	1,554.1	5.2	38.4	11.6	13.1	
Italy	1,307.9	1,369.4	4.5	42.9	21.9	4.7	
United Kingdom	903.2	934.9	3.1	46.0	11.3	3.5	
The Netherlands	841.6	913.2	3.1	49.0	4.2	8.5	
New Zealand	782.4	864.6	2.9	51.9	-1.8	10.5	
Australia	715.5	824.7	2.7	54.6	-2.7	15.3	
Ecuador	635.4	822.2	2.7	57.3	-4.7	29.4	

variety of processed foods and beverages from Canada, but the leading imports include red meat products, fish, vegetable oils, chocolate, liquor, and beer. The major imports from Mexico are fish, beer, processed fruits and vegetables, and liquor.

Thailand, our third-largest source of processed foods, is the only Asian country among the top 10 source countries. Thus, the impact of the Asian financial crisis on U.S. imports of processed food was small in 1997, and should remain small in 1998. Thailand's major exports to the United States are fresh and frozen fish and canned tuna.

Imports from France consist primarily of beverages—wine, liquor, soft drinks, and bottled water. Italy, another billion-dollar import source, ships mostly vegetable oils, wine,

cheese, and pasta to the United States. The leading processed food imports from the United Kingdom were liquor and candy, while the top imports from The Netherlands included beer and candy. In addition to meat products, U.S. imports from New Zealand and Australia consist mainly of dry and condensed milk, fish, sugar, and wine. Ecuador replaced Brazil as the only South American country in the top 10 source countries in 1997. Imports from Ecuador, mostly fresh and frozen fish and chocolate and cocoa products, surged 29 percent to \$822 million.

Processed food imports for 1998 will likely grow slower than in 1997. For the first half of 1998, imports

grew nearly 3 percent over the first half of 1997. Even though Asian currencies have significantly devalued, processed food imports into the United States from those countries have not increased with one exception—imports from Thailand (mostly fish products) have increased about 19 percent in the first half of 1998. Imports from Mexico and Australia are also showing double-digit growth—up 12 percent and 20 percent, respectively over first half of 1997. Imports from China, our twelfth-largest source of processed foods, declined 3 percent. This decline, coupled with a 50 percent increase in U.S. exports should result in a substantial processed food trade surplus with China in 1998. ■